

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 WARSAW 0352

EXDIS

FOR UNDER SECRETARY COOPER

EO 11652: GDS
TAGS: EFIN PL
SUBJECT: POLISH FINANCIAL DATA SUBMITTED BY FINANCE MINISTER
KISIEL: EMBASSY COMMENTS

1. SUMMARY: THE INFORMATION SUBMITTED BY
FINANCE MINISTER KISIEL IN DECEMBER, 1977, APPEARS TO
CONFIRM THE CIA'S ESTIMATES ON THE SIZE OF POLAND'S OUT-
STANDING DEBT AND ANNUAL DEBT-SERVICE PAYMENTS. THE KISIEL
PRESENTATION SUGGESTS A BETTER BASIS FOR REACHING A
JUDGEMENT ON POLAND'S ABILITY TO SUPPORT THIS HIGH
LEVEL OF INDEBTEDNESS, ALTHOUGH FURTHER DATA AND ANALYSIS
ARE REQUIRED. AN ESTIMATE OF POLAND'S NET BORROWING RE-
QUIREMENTS OVER THE NEXT THREE YEARS SEEMS PARTICULARLY
IMPORTANT IN THIS REGARD. THE SUPPORTABILITY OF POLAND'S
INDEBTEDNESS WILL BE DEALT WITH FURTHER IN A SEPARATE
TELEGRAM.

2. WE SHOULD MAKE CLEAR TO THE GOP OUR DISSATISFACTION
WITH THE LACK OF PRECISION IN THE DATA PRESENTED BY
MINISTER KISIEL. IN PARTICULAR, KISIEL'S PROJECTION
OF A 29 PERCENT INCREASE IN POLISH EXPORTS IN 1977 IS
MORE THAN DOUBLE THE RATES OF INCREASE QUOTED BY OTHER
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GOVERNMENT SOURCES. THE SCOPE OF KISIEL'S DATA, WHICH
APPARENTLY INCLUDE MERCHANDISE AND SERVICE EXPORTS TO
ALL NON-CEMA COUNTRIES, IS BROADER THAN THAT REFERRED
TO BY OTHER SOURCES, BUT THE 1977 PROJECTION SEEMS HIGHLY
EXAGGERATED IN ANY EVENT. IF A MORE REALISTIC 12
PERCENT GROWTH RATE IS ASSUMED FOR 1977, THE POLISH
TRADE DEFICIT WOULD BE ABOUT \$1.8 BILLION, RATHER THAN

THE \$700 MILLION ESTIMATED BY KISIEL, AND POLAND WOULD NOT ACHIEVE A CURRENT-ACCOUNT SURPLUS UNTIL 1981, RATHER THAN 1979, AS ESTIMATED BY KISIEL. WE BELIEVE THAT THIS APPARENT ERROR, THE NEED FOR PRESENTATION OF THE POLISH PROJECTION IN A FORMAT CLOSER TO NORMAL BALANCE-OF-PAYMENTS TABULATIONS, THE NEED FOR FURTHER EXPLANATION ON THE SIZE AND IMPACT OF IMPORT CUTS, AND THE NEED FOR GREATER CLARITY ON THE COMPOSITION OF THE GOP'S OUTSTANDING DEBT SHOULD BE DISCUSSED WITH THE GOP AT THE EXPERT LEVEL IN THE NEAR FUTURE. END SUMMARY.

3. THE FOLLOWING COMMENTS ARE BASED ON COPIES OF TABLES WHICH UNDER SECRETARY COOPER LEFT WITH THE EMBASSY ON DECEMBER 30. THE TABLES INCLUDE EXPLANATORY FOOTNOTES APPARENTLY INSERTED BY THE DEPARTMENT.

4. LEVEL OF DEBT AND DEBT-SERVICE PAYMENTS: THE ESTIMATES FOR ANNUAL DEBT-SERVICE PAYMENTS PROVIDED BY KISIEL ARE VIRTUALLY IDENTICAL WITH EARLIER CIA ESTIMATES. BOTH SOURCES ESTIMATE DEBT-SERVICE PAYMENTS TO BE \$2.325 BILLION IN 1977 AND TO EXCEED \$3 BILLION IN 1980, ALTHOUGH THE PROCE-DEFLATION ADJUSTMENT OF THE CIA AND THE ERROR IN KISIEL'S ESTIMATES FOR EXPORTS FROM 1977 ONWARD PREVENT THE FIGURES FROM BEING DIRECTLY COMPARABLE. KISIEL'S ESTIMATE OF TOTAL OUTSTANDING DEBT AT THE END OF 1976 (\$9.946 BILLION) DOES NOT DIFFER SIGNIFICANTLY FROM THE CIA ESTIMATE OF CONFIDENTIAL

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\$10.2 BILLION. THE KISIEL DATA, HOWEVER, DID NOT LIST SHORT-TERM OUTSTANDING DEBT, AND THE GOP SHOULD BE ASKED TO CLARIFY ITS DEFINITION OF MEDIUM-TERM, LONG-TERM, AND TOTAL OUTSTANDING DEBT TO ASSURE THE ESTIMATE IS NOT MISLEADING. A RECENT ARTICLE BY A BANK HANDLOWY ADVISOR ESTIMATED THAT "FORFAIT" COMMERCIAL CREDITS OF BETWEEN TWO AND THREE YEARS REPRESENT ABOUT 20 PERCENT OF POLAND'S NET ANNUAL BORROWING.

5. SUPPORTABILITY OF POLAND'S DEBT: KISIEL'S PRESENTATION SUGGESTS THAT THE GOP'S HIGH LEVEL OF DEBT SHOULD BE EVALUATED AGAINST TOTAL POLISH EXPORTS OF GOODS AND SERVICES TO NON-CEMA COUNTRIES. THE KISIEL DATA (AS ADJUSTED FOR 12 PERCENT EXPORT GROWTH IN 1977) INDICATE A DEBT-SERVICE-RATIO FOR POLAND OF ABOUT 40 PERCENT IN 1978 AND 1979, AS OPPOSED TO THE CIA'S ESTIMATE (BASED ONLY ON POLISH MERCHANDISE EXPORTS TO INDUSTRIALIZED COUNTRIES) OF OVER 60 PERCENT. IN ORDER TO MAKE A REALISTIC COMPARISON BETWEEN POLAND'S DEBT-SERVICE BURDEN AND ITS ABILITY TO EARN HARD CURRENCY, POLAND'S CLEARING-ACCOUNT TRADE WITH SOME LDCS WOULD NEED TO PROVIDE A MORE STANDARD

BALANCE-OF-PAYMENTS BREAKDOWN OF THE DATA PRESENTED BY KISIEL. IN PARTICULAR, IT IS NOT CLEAR WHETHER INTEREST PAYMENTS ON OUTSTANDING DEBT ARE INCLUDED UNDER THE "IMPORT" COLUMN OF THE KISIEL DATA. POLAND'S SUBMISSIONS TO GATT OF BALANCE-OF-PAYMENTS DATA FOR 1975 INCLUDED A DEBIT OF \$458 MILLION UNDER THE "INVESTMENT INCOME" PORTION OF THE CURRENT ACCOUNT, AND WE CAN THINK OF NO ITEMS OTHER THAN INTEREST PAYMENTS WHICH WOULD BE OF A SIMILAR MAGNITUDE IN THE CASE OF POLAND, WHICH HAS NO SIGNIFICANT FOREIGN INVESTMENT.

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C O N F I D E N T I A L SECTION 2 OF 2 WARSAW 0352

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FOR UNDER SECRETARY COOPER

6. AN ESTIMATE OF POLAND'S NET BORROWING REQUIREMENTS OVER THE NEXT THREE YEARS, AND HOW IT PLANS TO EFFECT SUCH BORROWING, WOULD BE A PARTICULARLY HELPFUL TOOL IN GAUGING THE LIKELIHOOD OF A POLISH RESCHEDULING. BASED ON THE KISIEL DATA (CORRECTED AS DISCUSSED BELOW FOR THE EXAGGERATED PREDICTION FOR 1977 EXPORTS), POLAND WOULD APPARENTLY NEED TO BORROW BETWEEN \$3.6 BILLION AND \$4.3 BILLION. NET BORROWING WOULD BE NEARER THE LOWER FIGURE IF ANNUAL INTEREST PYAMENTS (ESTIMATED AT OVER \$700 MILLION BY SOME SOURCES) HAVE ALREADY BEEN DEBITED IN KISIEL "IMPORT" COLUMN AND IF POLAND'S UNSEPCIFIED LEVEL OF FOREIGN RESERVES IS NOT DRAWN DOWN. WE THINK IT ALSO PROPER AND IMPORTANT TO ASK THE GOP HOW MUCH OF ITS NEW BORROWINGS IT EXPECTS TO REALIZE THROUGH GOVERNMENT CREDITS. KISIEL LISTED EXCPECTION OF THOSE FROM WEST GERMANY AND JAPAN. TO WAHT EXTENT WILL THEY BE UTILIZED? POLAND'S ABILITY TO

AVOID RESCHEDULING WILL BE AFFECTED BY ITS ABILITY
TO AVOID PLACING EVER GREATER SHARES OF THE FINANCIAL
BURDEN ON INCREASINGLY SKEPTICAL PRIVATE BANKS. PROJECTING
THE DISTRIBUTION OF BORROWING BETWEEN GOVERNMENT AND PRIVATE
BORROWINGS WOULD, OF COURSE, INVOLVE A MARGIN OF ERROR,
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BUT IT IS A QUESTION WHICH SHOULD BE POSED TO THE GOP.

7. WE WILL DEAL FURTHER WITH THE QUESTION OF ANALYSING
POLAND'S ABILITY TO AVOID RESCHEDULING IN A SEPARATE
TELEGRAM. THE FOLLOWING POINTS DEAL WITH ERRORS AND
OMISSIONS WHICH APPEAR TO EXIST IN THE KISIEL DATA AND
WHICH WE SHOULD ASK THE GOP TO CLARIFY.

8. EXPORTS: KISIEL'S ESTIMATE OF A 29 PERCENT INCREASE
IN POLISH EXPORTS OF GOODS AND SERVICES IN 1977 SEEMS
COMPLETELY UNREALISTIC. THE 1977 PLAN CALLED FOR AN
INCREASE OF ABOUT 15 PERCENT IN MERCHANDISE EXPORTS TO
"CAPITALIST" COUNTRIES, AND A RECENT INTERVIEW WITH
FOREIGN TRADE MINISTER OLSZEWSKI INDICATED THAT THE 1977
INCREASE ACTUALLY ACHIEVED WOULD BE ONLY ABOUT 11 PERCENT.
OLSZEWSKI'S FIGURES WERE APPARENTLY IN CURRENT PRICES.
KISIEL'S FIGURE OF 29 PERCENT, THEREFORE, APPARENTLY CANNOT BE
EXPLAINED AS STEMMING FROM THE USE OF CONSTANT 1977 PRICES
THROUGHOUT THE TABLE. KISIEL'S FIGURES SEEMS TO
ENCOMPASS MERCHANDISE AND SERVICE EXPORTS TO ALL NON-
CEMA COUNTRIES, BUT WE HAVE SEEN NO ESTIMATES THAT
WOULD SUGGEST SUFFICIENTLY HIGH RATES OF INCREASE IN
EXPORTS TO LDCS AND SERVICE EXPORTS TO DEVELOPED
COUNTRIES WHICH WOULD BE REQUIRED TO ACHIEVE A TOTAL
INCREASE OF 29 PERCENT ON THE CURRENT ACCOUNT.

9. IF ONE ASSUMES ONLY A 12 PERCENT RATE OF GROWTH
IN POLISH EXPORTS AS DEFINED BY KISIEL IN 1977 OVER 1976,
POLISH EXPORTS WOULD BE \$1 BILLION LOWER IN 1977, AND,
ADJUSTING FOR COMPOUND GROWTH RATES, \$1.375 BILLION LOWER
IN 1980 THAN ESTIMATED BY KISIEL. POLAND WOULD NOT, THEREFORE,
ACHIEVE A SURPLUS IN ITS HARD-CURRENCY TRADE UNTIL
1981, RATHER THAN IN 1979 AS ESTIMATED BY KISIEL.
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10. IMPORTS: THE 1978 PLAN CALLS FOR A DECREASE OF
1.4 PERCENT IN IMPORTS FROM CAPITALIST COUNTRIES, THUS
CALLING FOR EVEN FURTHER RESTRAINT THAN THE 3.5 PERCENT

RISE IN IMPORTS PREDICTED BY KISIEL. PART OF THE DIFFERENCE MAY BE EXPLAINED BY THE BROADER SCOPE OF THE KISIEL DATA (MERCHANDISE AND SERVICES FOR ALL NON-CEMA COUNTRIES). GOP OFFICIALS, DEPENDING ON THEIR FRAMES OF REFERENCE, COMMONLY CITE DIFFERENT FIGURES WHEN TALKING OF THE MAGNITUDE OF IMPORT CUTBACKS. THE PROJECTIONS ARE USUALLY GIVEN IN NOMINAL TERMS, HOWEVER, AND NONE APPROACH THE MAGNITUDE OF A 10 PERCENT INCREASE, WHICH WOULD BE SUGGESTED IF ONE ASSUMED THAT KISIEL'S FIGURE OF 3.5 PERCENT GROWTH WAS LISTED IN CONSTANT DOLLARS. IT SEEMS CLEAR THAT POLISH IMPORTS WILL ACTUALLY DECLINE IN REAL TERMS, ALTHOUGH THEY MAY STILL INCREASE SOMEWHAT IN NOMINAL TERMS. THE GOP SHOULD BE ASKED TO CLARIFY ITS INTENTIONS ON THE IMPORT FRONT AND THE IMPLICATIONS OF THIS POLICY FOR ITS OTHER CONOMIC GOALS.

11. PRESENT DATA IN BALANCE OF PAYMENTS FORMAT: IT WILL BE VERY DIFFICULT TO WORK MEANINGFULLY WITH THE KISIEL DATA UNLESS THE LUMP-SUM "EXPORT" AND "IMPORT" DATA ARE BROKEN DOWN ON A MORE STANDARD BALANCE-OF-PAYMENTS ACCOUNTING FORMAT. THE GOP PRESENTS SUCH A BREAKDOWN TO GATT, ALTHOUGH, SINCE THE PRESENTATION ENCOMPASSES TRADE WITH ALL GATT CONTRACTING PARTIES, IT INCLUDES SOME RUBLE-DENOMINATED TRADE AS WELL. SUCH A BREAKDOWN FOR POLAND'S HARD-CURRENCY TRADE IS ESSENTIAL FOR ANALYSIS OF THE CONSISTENCY AND FEASIBILITY OF KISIEL'S PERCENTAGE GROWTH ESTIMATES. IT DOES NOT SEEM REALISTIC TO EXPECT MERCHANDISE AND ENVISIBLE EARNINGS, OR EXPENDITURES, TO GROW IN THE SAME PROPORTION.

DAVIES
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